

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

----- 057046

O 131840Z DEC 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC IMMEDIATE 676

C O N F I D E N T I A L SECTION 1 OF 2 GEORGETOWN 2200

EXDIS

E.O. 11652: GDS

TAGS: EINV, EMIN, GY

SUBJECT: REYNOLDS TAX/NATIONALIZATION NEGOTIATIONS

DEPARTMENT ALSO PASS OPIC

REF: GEORGETOWN 2188

1. SUMMARY: THURSDAY DECEMBER 12 MEETING WITH JACK COVERED INTER-
ALIA FOLLOWING POINTS: SPECIFICS OF GOG PROPOSED VALUATION FORMU-
LA, REITERATION BY JACK THAT REPLACEMENT VALUE FORMULA UNACCEPTABLE
AND THAT WRITTEN DOWN BOOK VALUE WAS QUOTE ABSOLUTE OUTSIDE POSITION,
UNQUOTE; HUNT BROUGHT UP USG AGREEMENT WITH GOG WHICH CALLS FOR
BINDING ARBITRATION OF DISPUTED CLIAM; AMBASSADOR ARGUED THAT
DEFERRED CHARGES SUCH AS STRIPPING EXPENSES REPRESENT PHYSICAL IM-
PROVEMENTS AND SHOULD BE INCLUDED AS ASSETS.; JACK SAID GOG WOULD
CONSIDER LIFTING PROHIBITION ON EXPORT CALCINED AND CHEMICAL
GRADE SINCE IT NOT RPT NOT INCLUDED IN ASSETS TO BE NATIONALIZED:
JACK REITERATED BID TO SPLIT KWAKWANI AND EVERTON IN SALE ARRANGE-
MENT: ALSO AGREED TO KEEP REYNOLDS (RICHMOND) UP TO DATE ON GOG
DECISIONS AND ALSO TO MAKE MOVE TO RE-OPEN DIRECT COMMUNICATIONS;
HUNT MADE ABUNDANTLY CLEAR TO JACK THAT USG DOES NOT RPT NOT
ACCEPT LEGALITY OF LEVY AND THAT LEVY IMPINGES ON COMPENSATION IN
VIEW OF TIME CONTEXT; AMBASSADOR RAISED PROBLEM OF JUSTIFYING
REYNOLDS PAYMENT OF FULL PENSION FUND IF SIGNIFICANT PORTION OF
WORKERS RETRENCHED AND PAID FULL SEVERANCE PAY; JACK COUNTERED
10 PERCENT INTEREST OFFER WITH SIX PERCENT TAXABLE ANDPROPOSED
TWENTY YEAR INSTEAD OF TEN YEAR INSTALLMENTS.

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END SUMMARY.

2. DURING TWO SESSIONS ON DECEMBER 12 WHICH LASTED THREE AND ONE HALF HOURS, GOG REPS CAME UP WITH SUBSTANTIVE PROPOSALS WHICH AS INDICATED IN REFTEL SHOW USG AND GOG ON DIFFERENT WAVE-LENGTHS. AT MEETING BESIDES JACK WERE PATTERSON THOMPSON, CHAIRMAN OF GUYBAU, A. KRISHNAN, GUYBAU TREASURER, PERMSEC BARKER, W.R. DEVONISH, COMMISSIONER OF INLAND REVENUE, AND C. WALTERS OF MINENERGY. WHILE JACK DOMINATED TALKS FROM GOG SIDE, KRISHNAN PRESENTED DUAL RATE VALUATION FORMULA, AND THOMPSON TO LESSER EXTENT PARTICIPATED.

3. KRISHNAN PRESENTED SO-CALLED DUAL RATE VALUATION FORMULA WHICH HE SAID ADAPTED FROM U.S. MINING PUBLICATION. FORMULA HAS AS ITS VARIABLES (A) AMOUNT TO WHICH ONE DOLLAR DEPOSITED ANNUALLY ACCUMULATES OVER PERIOD OF TIME (HE GAVE USEFUL LIFE OF OPERATION) AT GOVT. SECIRITIES RATE.

(B) THE RECIPROCAL OF (1 MINUS THE CURRENT GOG INCOME TAX RATE).

(C) QUANTITY A TIMES THE RISK RATE (EXPRESSED AS A WHOLE NUMBER) WITH THE PRODUCT DIVIDED BY ONE HUNDRED. A IS THEN DIVIDED BY THE SUM OF B AND C WHICH YIELDS A MULTIPLIER KNOWN AS QUOTE YEARS PURCHASE UNQUOTE. AN AVERAGE NET EARNINGS FIGURE (FOR SOME AGREED UPON PERIOD) IS THEN MULTIPLIED BY THIS QUANTITY TO ARRIVE AT A VALUATION. JACK EXPRESSED WILLINGNESS TO DISCUSS APPROPRIATE FIGURES FOR VARIABLES IN THIS CASE, THEN STATED THAT IN ANY CASE THE FINAL FIGURE MUST NOT EXCEED WRITTEN DOWN BOOK VALUE - DOLS US 11.68 MILLION.

4. JACK AGAIN DISMISSED REPLACEMENT VALUE AS METHOD TO ARRIVE AT SETTLEMENT AND REAFFIRMED THAT GOG UNWILLING TO GO ABOVE WRITTEN DOWN BOOK VALUE AS BAE FIGURE. HE STATED GOG CONSIDERED THIS AMOUNT MORE THAN GENEROUS SINCE GOG SURVEY FOUND PROPERTIES BADLY RUN DOWN. ALSO SAID AT ONE POINT QUOTE WE WILL NOT EXPECT TO PAY MORE THAN THE WRITTEN DOWN BOOK VALUE. UNQUOTE.

5. HUNT MADE IT CLEAR OPIC ALSO HAD MINIMUM LEVEL SETTLEMENT AND EMPHASIZED THAT IN USG VIEW LEVY WITHOUT LEGAL STANDING IN LIGHT OF 1965 CONTRACT BETWEEN REYNOLDS AND GOG. MOREOVER, TAKEN IN CONTEXT OF IMMINENT NATIONALIZATION LEVY MUST BE ADJUSTED WITHIN FRAMEWORK OF COMPENSATION. AT ONE POINT WHEN JACK STATED SUB-STANTIAL CAPITAL INPUT NEEDED TO PUT REYNOLDS INTO PROPER SHAPE, AND CONFIDENTIAL

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NOTED THAT GOG DID NOT RPT NOT WANT ANYTHING TO DO WITH EVERTON IF IT COULD HELP IT, HUNT RETORTED WITH SUGGESTION THAT IN STRICTLY BUSINESS TERMS GOG SHOULD NOT RPT NOT NATIONALIZE. JACK AGREED BUT STATED OVERWHELMING POLITICAL NEED TO DO SO. HE ALSO MADE FINE DISTINCTION BETWEEN GOG OWNERSHIP AND CONTROL OF KWAKWANI WHICH FOLLOWED GOG POLICY TO OWN AND CONTROL NATURAL RESOURCES, WHILE FOREIGN OWNERSHIP OF PLANT AT EVERTON DID NOT RPT NOT VIOLATE THIS PRECEPT. HUNT PICKED UP ON JACK'S REFERENCE TO GOG POSITION

BEING SUBJECT TO POLITICAL CONSTRAINTS, SAYING OPIC APPROACH HAD BEEN OPEN AND BUSINESS-LIKE APPROACH TO FAIR VALUATION (CITING GERMAINE STUDY), BUT IF POLITICAL FACTORS WERE TO PLAY A PART GOG SHOULD BE MINDFUL OF IMPORTANCE THAT OPIC INSURANCE LIABILITY BE FULLY COVERED. THOMPSON NOTED THAT INSURANCE COMPANIES MUST EXPECT TO REALIZE PROFITS ON SOME COVERAGES AND LOSSES ON OTHERS.

6. IN DISCUSSION OVER WHAT CONSTITUTED ASSETS OF COMPANY, AMBASSADOR ARGUED AGAINST JACK'S CONTENTION THAT DEFERRED CHARGES MUST BE EXCLUDED. ARGUMENT WAS THAT STRIPPING EXPENSES, FOR EXAMPLE, REPRESENT TRUE PHYSICAL IMPROVEMENT OF THE OPERATION IN THAT PART OF MINING COST (...CONT...)

NOTE BY OCT: NOT PASSED OPIC.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

----- 057264

O 131840Z DEC 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC IMMEDIATE 677

C O N F I D E N T I A L FINAL SECTION OF 2 GEORGETOWN 2200

EXDIS

E.O. 11652: GDS

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TO GOG ELIMINATED. SAME WOULD HOLD TRUE FOR GEOLOGICAL EXPENSES.

7. ON VALUATION ISSUE JACK BROUGHT UP GOG DESIRE TO NOT RPT NOT TAKE ALL PHYSICAL ASSETS CLAIMING THAT SOME QUOTE JUNK UNQUOTE IS INCLUDED IN REYNOLDS PLANT AND EQUIPMENT. HE DECLINED TO ELABORATE ON THIS AS TO HOW MUCH IT INVOLVED AND HOW IT WOULD

EFFECT THE VALUATION.

8. JACK SAID REYNOLDS STOCK INVENTORY WOULD NOT BE INCLUDED IN PURCHASE. GIVEN THIS, GOG WILLING TO LIFT BAN ON EXPORT OF CALCINED AND CHEMICAL SINCE REYNOLDS SHOULD HAVE OPPORTUNITY TO SHIP ABROAD OR PERHAPS STRIKE SEPARATE DEAL TO SELL TO GUYBAU. STAND ON METAL GRADE UNCHANGED. HE REITERATED THAT IN THIS REGARD REYNOLDS HAD OT RPT NOT CONTACTED GOG AND HE THUS HAD NO IDEA OF THEIR PLANS. WITH THIS HUNT SUGGESTED THAT GOG MOVE TO ESTABLISH CONTACT WITH RICHMOND AND BEGIN SOME DIALOGUE DIRECTLY. JACK AGREED TO NOTIFY RICHMOND AS WELL AS LOCAL OFFICE OF GOG DECISIONS AND INDIVIDUAL STEPS TOWARD ULTIMATE VESTING. ALSO BRUSHED ASIDE ANY CHANGE THAT GOG WOULD TAKE PERSONAL LEGAL ACTION AGAINST ANY REYNOLDS OFFICIALS WHO MAY COME TO NEGOTIATE. HE STATED THAT
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ARREST FOR EXAMPLE OF REYNOLDS OFFICIAL WOULD BE CLEAR INDICATION TO EVERYONE THAT GOG DID NOT RPT NOT WANT A SETTLEMENT. (DIPLOMATICALLY, NO ONE VENTURED TO SUGGEST THAT THIS MIGHT BE THE CASE.)

9. ON THE PENSION FUND THERE APPEARED A WIDE DISPARITY BETWEEN HUNT'S FIGURE OF GUYANESE DOLS 1,821,047 REPRESENTING BACKTAX ASSESSMENT RELATED TO FUND AND DEVONISH FIGURE OF GUYANESE DOLS 950,000. DEVONISH INSISTED THAT HE WAS NOT RPT NOT RECKONING IN US DOLS. FURTHER TO THIS, AMBASSADOR MADE POINT THAT IF REYNOLDS PAYS FULL SEVERANCE PAY THEN WORKERS RECEIVING THIS BENEFIT SHOULD NOT RPT NOT BE ENTITLED TO PENSION BENEFITS AND CONSEQUENTLY, REYNOLDS OBLIGATION TO FUND PENSION TRUST WOULD BE REDUCED ACCORDINGLY. JACK, TAKEN BY SURPRISE, CONCEDED THAT THIS SEEMED LEGALLY CORRECT BUT NOTED QUOTE THERE MUST BE FLAW IN IT SOME WHERE UNQUOTE.

10. HUNT LED OFF RENEWED REQUEST FOR GOG PACKAGE PROPOSAL AT START OF SECOND SESSION WITH RECAPITULATION (LARGELY FOR THOMPSON'S BENEFIT) OF WHAT WE VIEW AS SHORTCOMINGS OF GOG POSITION ON EACH MAJOR ELEMENT INVOLVED IN DISPUTE. EFFORTS TO DRAW THOMPSON OUT ON CURRENT PRICE AT WHICH GUYBAU IS SELLING BAUXITE WERE UNSUCCESSFUL. HE NOTED THEY COULD NOT RPT NOT DETERMINE PRICE UNTIL THEY STUDIED COST EXPERINCE AT REYNOLDS GUYANA OPERATION, BUT ASSURED THAT REYNOLDS COULD BUY AT NON-DISCRIMINATORY PRICE.

11. TOWARDS END OF SESSION JACK BRIEFLY CITED TWO POINTS IN DRAFT AGREEMENT WITH WHICH GOG HAD GREAT DIFFICULTY. ON QUESTION OF INTEREST AT TEN PERCENT NOT SUBJECT TO GUYANA TAX HE SAID IMPOSSIBLE TO ACCEPT. SUGGESTED SIX PERCENT TAXABLE (WHICH WOULD BE SAME AS ALCAN SETTLEMENT) AND SAID QUOTE IT MAY BE BEYOND OUR INGENUITY TO WORK SOMETHING OUT UNQUOTE. ON LENGTH OF TIME FOR INSTALLMENT PAYMENTS HE ASKED FOR TWENTY YERS BUT FLATLY STATED THAT COMPROMISE WAS POSSIBLE. IMPORTANT TO NOTE THAT BEFORE TREATING THESE TWO POINTS JACK PREFACED REMARKS BY SAYING MORE THAN

ONCE QUOTE IF WE GET THAT FAR, UNQUOTE. AT ABOUT THIS POINT HUNT
MADE COMMENT THAT MINMINES PROPOSAL THAT ONLY COMPENSATION BE
SETTLED BY NEGOTIATION, WITH TAX AND LEVY BEING LEFT TO DETER-
MINATION BY COURT, CALLED ATTENTION TO FACT THAT ISSUES NOT RE-
SOLVED BY AGREEMENT MIGHT ULTIMATELY HAVE TO BE DECIDED BY INTERNA-
TIONAL ARBITRATION PURSUANT TO USG-GOG BILATERAL AGREEMENT.
AT FIRST JACK SEEMED UNAWARE OF AGREEMENT BUT THEN ACKNOWLEDGED.
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12. ON BACK TAX ISSUE DEVONISH NOTED THAT PENDING CASE COVERED
ONLY THROUGH 1972 TAX YEAR AND THAT SIMILAR DISALLOWANCES FOR
1973 AND 1974 WOULD HAVE TO BE FIGURED IN SETTLEMENT.

13. MEETING ENDED ON CORDIAL BUT SOMEWHAT DEPRESSING TONE, NOT
ONLY FROM OUR SIDE OF TABLE BUT AMONG GOG REPS AS WELL.
KREBS

NOTE BY OC/T: NOT PASSED.

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